
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: *Supplemental TBD*

Fiscal Year 2010 Year-End General Fund Solution and Appropriation Adjustments

OVERVIEW

The Chief Financial Officer and Chief Operating Officer issued the Fiscal Year 2010 Year-End General Fund Solution and Appropriation Adjustments Report on June 9, 2010 (June 9 Report).

On June 14, 2010, the City Council will be asked to accept the report, and authorize the requested appropriation adjustments. Amendments to the Appropriation Ordinance (AO) require two public hearings. Following the first public hearing on June 14, the Council's adoption of the AO amendment will then take place at the time of the second public hearing, which is expected to be held on June 21, 2010.

The June 9 Report is intended to accompany the Fiscal Year 2010 Year-End Budget Monitoring Report issued on May 20, 2010. The Budget Monitoring Report described the current status of revenues and expenditures, and year-end projections, based on actual (unaudited) data from July 1, 2009 through March 2010 (Period 9 out of 13), and reflected a General Fund deficit of \$7.8 million. The report included no recommendations on how to address the projected shortfall.

FISCAL/POLICY DISCUSSION

General Fund Status

The following chart summarizes the changes in budgeted revenues and expenditures, and compares revised projections, since the beginning of the fiscal year. Based on the Year-End Projection, General Fund revenues are now projected to be \$66.8 million less than

the Current Revised Budget, which is a 6 percent decrease. General Fund expenditures are projected to be more than revenues, and \$27.5 million less (or 2 percent lower) than the Current Revised Budget. The Year-End Projection reflects a \$7.5 million decrease in revenues and a \$10.9 million drop in expenditures, from the projections made in the Mid-Year Report.

General Fund Status Fiscal Year 2010					
	FY 2010 Adopted Budget	FY 2010 Year- End Projection (First Quarter)	FY 2010 Revised Budget (after adjustments)	FY 2010 Year- End Projection (Mid-Year)	FY 2010 Year- End Projection (Year-End)
Revenues	\$1,129,706,375	\$1,079,342,739	\$1,111,994,517	\$1,052,689,633	\$1,045,227,601
Expenditures	\$1,129,706,375	\$1,118,348,876	\$1,111,994,517	\$1,095,441,019	\$1,084,540,116
Net Balance	--	(\$39,004,137)	--	(\$42,751,386)	(\$39,312,515)
Release PY Funds		\$31,524,767		\$31,524,767	\$31,524,767
Est. Shortfall		(\$7,479,370)		(\$11,226,619)	(\$7,787,748)

The Year-End Projection reflects a net General Fund deficit of \$7.8 million, which is improved from the \$11.2 million shortfall reported at Mid-Year. However, limited time and options are available in order to eliminate the expected gap by June 30, 2010.

FY 2010 General Fund Solution

The proposed FY 2010 General Fund Solution includes the utilization of prior year tobacco securitization settlement payment revenue, savings from Tax and Revenue Anticipation Notes (TRANs), savings from the Wireless Communication Technology Fund, and the deappropriation of capital projects funding.

Tobacco Securitization Settlement Payment Revenue: \$1.3 million

In June 2006, the City contributed \$90.8 million to the Pension System by securitizing future annual tobacco settlement revenues (TSR) beginning in 2007. As a result, the City pledged the first \$10.1 million of TSR received each year to repay the borrowing. The amount of TSR the City actually receives each year largely depends on the total value of domestic cigarette shipments made by tobacco companies participating in a Master Settlement Agreement. If the City receives less than \$10.1 million in any year, the financing term is extended as needed to facilitate total repayment to bondholders. If the City receives more than \$10.1 million in any year, the additional funds accrue to the General Fund.

The City does not typically include TSR in the annual budget in the year it might be received because its receipt is uncertain. The annual TSR distribution is received from the State in April. If additional TSR (above the \$10.1 million) is received, it is budgeted in the General Fund as revenue for the following fiscal year beginning July 1st. If and when it is received, additional TSR is deposited in a special non-General Fund account. A subsequent transfer is required to move TSR from the non-General Fund account to the General Fund.

The City received approximately \$11.4 million of TSR in April 2009 which resulted in \$1.3 million being budgeted in the General Fund in FY 2010. Based on a miscommunication between Financial Management and City Comptroller staff, Financial Management department staff removed \$1.3 million of TSR from their year-end projections believing the revenue had already been booked into the General Fund when received in FY 2009. In further discussing this matter with City Comptroller staff, Financial Management staff learned that the TSR funds had yet to be booked or recognized by the General Fund. Based on these circumstances, the General Fund will realize an additional \$1.3 million when the TSR is transferred in from the non-General Fund TSR account. The City did not receive additional TSR in April 2010.

Savings from Tax and Revenue Anticipation Notes: \$500,000

The City issued approximately \$123.5 million of TRANs in FY 2010. As the City budgets for TRAN interest expense before the Notes are finally sized and priced, there is typically a difference in the amount budgeted for payment of TRAN interest (and related costs of issuance) and the amount actually owed. In FY 2010, approximately \$1.3 million was budgeted for TRANs interest expense in the General Fund (within Citywide Program Expenditures). Subsequent to adoption of the final FY 2010 Budget, the City received a premium that was approximately \$500,000 higher than anticipated in return for a higher coupon rate on the Notes. As the additional premium was used to partially pay TRAN interest, Financial Management staff is now identifying General Fund savings of \$500,000 compared to the amounts budgeted to pay the FY 2010 TRANs interest and related expenses.

Savings from Wireless Communication Technology Fund: \$800,000

In reviewing the Year-End Monitoring Report, the IBA identified that the Wireless Communications Fund is projected to have excess revenues and expenditure savings totaling almost \$1 million combined. Approximately 78% of this funding is provided by the City's General Fund. In an effort to discover potential budgetary resources, the IBA requested further information about the return of the potential excess. As a result of this review, the General Fund Solution includes the return of \$780,000 in excess funds to the General Fund during FY 2010 which will mitigate the shortfall.

Deappropriation of Capital Projects Funding: \$5.2 million

The FY 2010 budget solution includes the reduction of capital project funding of \$2.18 million from completed projects or projects close to completion (total of nine projects), in which the source of funding was the City's General Fund. These amounts are now considered excess, are no longer needed for these particular projects, and can be returned to the General Fund.

Review of Funding for Storm Water Capital Projects

In addition to the \$2.18 million in excess project funding, the budget solution proposes the deferral of four Storm Water projects, totaling over \$3 million, to FY 2011. It is proposed that the funding be deappropriated from these projects in FY 2010 and returned

to the General Fund in order to balance the budget by year-end. Then, in a separate action related to the FY 2011 Budget, the Council has been asked by the Mayor to reinstate the funding for these four projects, due to the critical nature of the projects.

The IBA contacted the Storm Water Department to identify the potential impact of eliminating the funding for the four Storm Water projects, and also requested the longer term ramifications if funding was not returned in FY 2011 as proposed. Departmental staff provided descriptions of the status of each project, and expected impacts if funding is not returned.

In general, if funding is not returned, these projects will be delayed by one to two years, but would not be canceled or delayed indefinitely. Delays in these projects could put the City in a position of potentially being in non-compliance with the municipal storm water permit, by not completing two required projects for each of the City's six watersheds in the coming year. However, as described in the Mayor's May Revise, an additional \$1.3 million is planned to be allocated for Watershed CIP projects in the FY 2011 Budget, with new funding coming from the Storm Water Department operating budget in the General Fund. Each of the projects are described below, including the Council District where located.

Emergency Drainage Project - Laurel Ridge Court Storm Drain (CD 7): \$1 million – This project is the repair of a storm drain outfall system behind private property in the Navajo community. The storm drain pipe has failed, causing erosion and slope stability issues that put private property at risk. If the project is delayed through an additional rain season, continued erosion will degrade the downstream environment and increase the risk of a catastrophic failure of the slope.

Watershed CIP (multiple districts): \$800,951

Kellogg Park Project (CD 1): \$400,000 – Approximately \$400,000 was planned to fully fund the construction of Kellogg Park Project in FY2011.

The other \$400,000 was planned for the initiation of the preliminary design of other water quality projects needed to meet the required two watershed projects per year. This list includes:

Mission Valley Library (CD 6): \$100,000

Environmental Services Parking Lot (CD 5): \$100,000

Maple Street Canyon (CD 2): \$200,000

Watershed CIP - Dalbergia & Thorne St. Green Street (CD 8): \$86,842 – Construction was planned for 2010. The project will be delayed from 2010 to 2012.

Watershed CIP - Bannock Ave Streetscape Enhancement (CD 6): \$1,045,381 – This project was scheduled to begin design in FY2011. Eliminating this funding will delay the construction of the project for one year.

Other Possible Projects for Unfunding/Delay

The projects recommended for de-appropriation are within the fund entitled “General Fund Contributions to the CIP.” This funding source contains approximately \$8.6 million in available funding allocated among many projects. Four projects (as described above) have been recommended for delay and unfunding, while nine are recommended to have remaining funding reduced based on project savings and completion. Over 25 other projects have a total of \$3.4 million in available balance. Depending on the status and the urgency of these projects, these could also be considered candidates for de-appropriation and delay. Attachment A to this report contains a listing of these additional General Fund capital projects.

The City Council could consider these projects for de-appropriation, with the return of funding to the General Fund. The IBA suggests that the City Council may want to consider requesting additional information for the identification, status, and urgency of other projects that could be candidates for possible de-appropriation and delay, prior to taking action on the Year-End Adjustments on June 21.

In addition, if the Council chooses to de-appropriate the four Storm Water projects, the Council may wish to request additional review of the Storm Water capital projects program by either the Council or the Natural Resources and Culture Committee, to determine the critical nature of these particular projects, and depending on the outcome of that review, could consider reinstatement of project funding at a later date sometime in FY 2011.

Requests for Appropriation Adjustments

The Year-End Adjustments include various requests for transfers to reconcile departmental expenditures by category, and the report describes the reasons and justifications for each request. The IBA understands these transfers to be necessary and typical at the close of each fiscal year to ensure a balanced budget.

Recommended Changes to Budget Monitoring Process

As discussed in the IBA’s Final Report on the FY 2011 Budget (No. 10-43), the delay by the Mayor in providing recommendations for corrective actions to balance the FY 2010 budget has negatively impacted the Council’s ability to finalize its decisions related to the FY 2011 budget. As we noted then, “it is likely that actions taken to balance FY 2010 will negatively impact the FY 2011 budget.”

As FY 2010 comes to a close, and the City is in the final steps of the FY 2011 budget process, it is not possible to fix the process issues of the past to affect or improve the current budget situation. However, to avoid this in the future, the IBA recommends the following:

- When a year-end deficit is projected in the Mid-Year Monitoring Report, action should be taken immediately to correct the budget through mid-year budget adjustments.
- When a year-end deficit is still projected in the Year-End Report, solutions for eliminating it should be proposed immediately, and Council should be given sufficient opportunity to provide input on proposed solutions.
- The Year-End Report (including recommendations for eliminating any projected current year deficit) should be provided to the City Council in advance of the Council's first scheduled meeting on budget deliberations/decisions on the upcoming fiscal year budget.
- For FY 2011, we recommend that the Mayor provide a General Fund revenue update to the Budget and Finance Committee at the September 29th meeting. This update should include, at a minimum, updated property tax and sales tax projections based on the final assessed valuation report from the County and the September sales tax cleanup payment. Such an update is particularly critical given our ongoing concerns with FY 2011 property tax projection and the impending General Fund deficit projected for FY 2012. The City Council should receive timely updates of critical financial information to allow swift corrective actions to be formulated, if needed.

CONCLUSION

The IBA recommends that the City Council accept the report of the Fiscal Year 2010 Year-End General Fund Solution and Appropriation Adjustments, following the two public hearings expected to be held on June 14 and June 21.

The IBA has reviewed the various elements of the General Fund Solution, and this report provides additional explanations about the expected savings and newly anticipated revenue, which make up the plan. This report also describes the status of the various capital projects which are recommended for de-appropriation. It is unfortunate that such limited time is available to make assessments and important decisions.

The IBA suggests that the City Council may want to consider requesting additional information for the identification, status, and urgency of other projects that could be candidates for possible de-appropriation and delay, prior to taking action on the Year-End Adjustments on June 21.

In addition, if the Council chooses to de-appropriate the four Storm Water projects as proposed, the Council may wish to request additional review of the Storm Water capital projects program by either the Council or the Natural Resources and Culture Committee,

to determine the critical nature of these particular projects. Depending on the outcome of that review, the Council could consider reinstatement of project funding at a later date sometime in FY 2011 through the Mid-Year budget review; a reprioritization of Storm Water projects; or if determined critical, a one-time use of General Fund Reserves.

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Attachment A – Capital Projects – General Fund Contributions to CIP